HEARINGS
Before The
Committee on Foreign Relations
United States Senate
Eighty-Second Congress
Second Session
On
A Bill To Amend The Mutual Security Act
Of 1951, And For Other Purposes

March 13, 14, 17, 18, 19, 20, 21, 24, 25, 26, 27, 28, 31
April 1, 2, 3, and 4, 1952

MUTUAL SECURITY ACT OF 1952

TUESDAY, MARCH 25, 1952

UNITED STATES SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, D. C.

EXECUTIVE SESSION

The committee met, pursuant to adjournment on Monday, March 24, in the committee hearing room, United States Capitol, at 10 a. m., Senator Walter F. George, acting chairman, presiding.

Present: Senators George (acting chairman), Green, Gillette, Wiley, Smith of New Jersey, Hickenlooper, and Tobey.

Present of committee staff: Dr. Wilcox, Dr. Kalijarvi, Mr. Marcy.

Also present: William Tomlinson, financial counselor to former Ambassador Bruce; Jack K. McFall, Assistant Secretary, Department of State; Laurence C. Vass, Officer in Charge, NATO Financial and Economic Assistance Affairs, Department of State; Edgar Beigel, French Desk, Department of State; General George Olmsted, Director, Office of Military Assistance, Department of Defense; Samuel Efron, counsel, Office of Military Assistance; C. Tyler Wood, Associate Deputy Director, Mutual Security Agency; Harlan Cleveland, Assistant Director, Mutual Security Agency; William S. Batt, United States Representative, NATO Defense Production Board.

Senator GEORGE. We are glad to have you, Mr. Ambassador. You are prepared to speak to us on the Mutual Security Act of 1951, and particularly for fiscal 1953 as it relates to France. If you have a prepared statement, we will be very glad to have you proceed with the statement, or off your notes, just as you please.

STATEMENT OF HON. DAVID K. BRUCE, FORMER AMBASSADOR OF THE UNITED STATES TO FRANCE

Mr. BRUCE. Senator, I was advised only last night when I arrived in Washington that I was to submit a written statement. I drew one up during the night and it has not yet been mimeographed, but it will be submitted to the committee later in the day, so if I may suggest it, I will go ahead and make an oral presentation, if I might, of an informal nature, and the statement will be presented in the course of the morning.

Senator GEORGE. That is quite agreeable. If you have a statement prepared, then we can give that to the press. Presumably you would have nothing in your statement that you are not willing to make public.

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Mr. BRUCE. Nothing whatever, sir.
(The prepared statement is as follows:)

STATEMENT BY HON. DAVID K. E. BRUCE

In spite of frequent Cabinet changes since the liberation French foreign policy has remained remarkably constant. In fact during the last 7 years there have been only two Foreign Ministers, Messrs. Bidault and Schuman. By overwhelming majorities—even though the Communists have always voted in opposition—the French Parliament has approved all measures for the defense of the Western European community.

To implement this defense, the French Nation is currently making, in proportion to national income, the largest contribution of any NATO country except that of the United States, and prior to the outbreak of the Korean war the military effort of France was larger proportionately than our own.

Naturally, we have recently been deeply concerned over political developments in France. The interplay, the reaction, between politics and economics is closely linked. There is an equal apprehension over the large, although reduced, Communist vote that expressed itself in the last general election.

Yet, these conditions should not be viewed with an excess of pessimism. It is quite evident that France could make a tremendous, and perhaps determining commitment to NATO defense if it were not for its involvement in Indochina, in that almost unknown war where French Union forces killed have now exceeded 30,000. This war at times seems a bottomless pit, for into it have been thrown the flower of the French professional army; almost 50 percent of the officers and noncommissioned officers so essential to the training and leadership of French NATO forces are engaged there, to say nothing of 25 percent of her naval contingents, as well as almost enterprising body of combat airmen.

As to communism in France, it no longer constitutes the threat that it once did to the integrity of the Atlantic community. With its parliamentary representation reduced from 180 to 101 Assembly Members, its newspapers circulating at less than half the momentum of a few years ago, its followers in the French CGT Labor Union constituting only about one-fourth of their strength in 1946, its hold on the management of nationalized industries broken, its infiltration of the armed forces neutralized, its dominance in certain government departments vitiated, its directors unable since 1948 to invoke a crippling strike, its demonstrations against Eisenhower and Adenauer public fiascos, its propaganda beginning to be effectively countered, its submission to orders from Moscow increasingly arousing the patriotic suspicions of French workmen and farmers, its influence has diminished to a point where though still dangerous it presents no immediate impediment to the realization of policies conceived in the national interest.

Unhappily, the burden of armament, and the operation of a fierce and costly anti-Communist war in Indochina, superimposed upon the necessary demands of a economy prostrated by years of enemy occupation, and only recently convalescent, have accentuated the inflationary forces in France, and rendered its balance of payments problem especially in relation to the dollar zone, unmanageable without substantial foreign assistance.

Although an admirable proportion exists between agriculture and industry in France, any slight disturbance in it is provocative of unfavorable reactions. Last year there was, due to climatic conditions, a shortage in bread grain production, and, as a consequence, large imports of wheat became mandatory. Although the output of coal in 1951 was the largest in French history, as was the performance per miner, the dislocation in the movement of that commodity and of coke, due primarily to the falling off of traditional imports from Great Britain and Germany, forced the French Government to have recourse to the uneconomic expenditure of dollars to import coal from the United States—and even so supplies were not sufficient to enable the steel industry to operate at more than 85 percent of capacity.

French industry has staged a noteworthy recovery since 1944, with the details of which you are thoroughly familiar. But the continuance of its pace depends upon its ability to import those raw materials in which it is notably deficient. Even within the broad confines of the French Union, little petroleum, rubber, cotton, nonferrous metals and many other indispensable ingredients of modern industrial production have been found. Before the last war, these commodities were freely obtained through the use of the substantial foreign assets, in dollars and other hard currencies, of the Metropole.

These assets no longer exist. They were looted by a skilled and unscrupulous invader, and what little remained was devoted to the reconstruction of an exhausted plant and depleted inventories.

Under the impulse of Marshall plan grants and loans it seemed for a time that a stable recovery was within sight.

But the dislocations, inevitably consequent upon NATO defense preparations, were added to the serious drain in Indochina, coupled with a world-wide rise in the price of raw materials, and an adjustment on the part of France's trading partners to meet this unwelcome situation by restrictions in external commerce, began to have their full effect, there was a deterioration in public finances, both internal and external, of the gravest description.

These were amongst the basic reasons for the evils which have afflicted the French economy. But, in my personal view, I must say that the instability of French politics, the inability to create those social conditions that would lessen party dissensions, the optimism and national pride that influenced the undertaking of military programs beyond the real capability of the national economy to support, have aggravated a situation that was intrinsically extremely difficult.

Retrenchment in expenditures is the usual remedy for such unhealthy manifestations. Unfortunately this specific was impracticable of application. The French Government was resolved to continue the effort in Indochina and at the same time to supply a number of divisions to NATO in excess of those scheduled for any other member.

The result of this resolution confronts us with the present dilemma. In spite of the inequities in the incidence of French taxation, the amount of taxes actually collected in proportion to national income has been for some years the highest, with the exception of Great Britain, of any major country in the non-Communist west.

Moreover, when the report of the Temporary Council Committee of NATO fixed the politico-economic capacity of France to make a defense contribution in the amount of 1,190 billion francs, the French Government not only accepted this figure, but after careful deliberation decided to increase it to 1,400 billion francs.

The only controversy that has arisen over this decision is as to how it should be financed, either by tightening credit on private industry in order to increase Government borrowing, or by increasing already high and in some cases nearly confiscatory tax rates on ascertained incomes, or by making up the difference, by what may prove to be impracticable, through the collection of delinquent taxes.

There must also be taken into account the leadership in foreign policy displayed by successive French Governments in continental affairs. The initiation of the Schuman plan for a pooling of the steel and coal resources of Western Europe, the proposal of the Pleven plan for a European Defense Community, both of them leading toward the realization of that age-old dream of civilized man—the formation of a political federation of Europe—are perhaps the most significant undertakings in the political field that our own, or, for that matter, many preceding generations have witnessed.

These developments have already proven so disturbing to the Soviet Government that it has endeavored in every fashion to counteract these great policies, devoted to peace, that are aimed to draw Germany into the western orbit and to coordinate and strengthen the defense of the free world.

It is, therefore, to this complex situation, but one in which our own security is so largely involved, that I shall address some informal observations.

Senator GEORGE. Yes, sir. You may proceed as you wish, Mr. Ambassador.

Mr. BRUCE. Well, I think if I may, Mr. Chairman, that I will not run over now in such great detail as I did before the committee last summer in Paris the existing situation in France, but I will refer particularly to those occurrences and the relevant background that have taken place since the visit of the committee at that period.

FRENCH CONSTITUTIONAL PROCESSES

We have all been alarmed, of course, by the almost constant instability of French governments and the fickleness of French political

life, especially as it has appeared to other countries. Now, I think in that regard one should try to analyze a little the reasons for the very unusual relationship which exists there between the executive and the legislative branches of the Government.

As you know, in the first half of the nineteenth century there were two French Republics, the second of which terminated in 1852. When the Third Republic, which came into being after the disaster of the Franco-Prussian War, was formed, a constitution was drawn up and ratified which was designed fundamentally to keep any man—what the French always refer to as "a man on horseback"—from ever again attaining a dictatorial power.

As a result, the Parliament has in effect a life-and-death decision over the executive branch of the Government. After the liberation in 1944, when the Fourth Republic Constitution was formulated and later came into existence, that principle to which I have referred was continued, and so the Executive in France is in effect the creature of Parliament, because when Parliament dismisses or overthrows a Prime Minister the Parliament itself continues, unlike what is the case in the English system. So the Parliament which is bicameral, has the real power, and it now resides in only one of those bodies, the National Assembly. When the Parliament dismisses a Prime Minister, the life, the tenure of office, of the National Assembly continues undisturbed.

Senator SMITH of New Jersey. That is, they do not have another election at that point as they do in England?

Mr. BRUCE. That is correct, sir. The members of the National Assembly remain in office for 5 years; those of the Council of the Republic, which is sometimes called the Senate, are in office for 6 years, and the President himself remains for 7 years.

The President of France constitutionally is almost a figurehead. He is the chief of state; he presides over all ceremonial functions; he represents the state in foreign countries; he signs commissions for the chief officers of the Government; but the only power which he possesses that is characteristic of a true chief of state, or one possessing executive authority, is his right to appoint a Prime Minister, who in turn must be ratified by the National Assembly—"invested," it is called, by the National Assembly.

The President himself is selected by the vote of the Council of the Republic, and the National Assembly. When he appoints a Prime Minister, that Prime Minister must be voted upon favorably by the members of the National Assembly. At any time thereafter, and sometimes it has occurred within 48 hours, after they have given him their favorably voices, the Prime Minister can be ejected from office by the adverse vote of the National Assembly.

Senator GILLETTE. A majority vote in either case?

Mr. BRUCE. A majority vote in either case.

PARLIAMENTARY SITUATION IN FRANCE

When you couple that tendency to instability with the multiparty system in France, you have all of the makings of a state of chaos. I have thought to myself it is fairly remarkable that political conditions in France are not more chaotic. But as you have successive changes in the Cabinet you have at the same time a reformation amongst

these parties in such a manner that the same leaders who have occupied Cabinet posts in the past are very likely to become members of the new, of the successor, Cabinet, very often in different positions. If you will scan the representation in the different cabinets since 1944 you will find a constant recurrence of the same names, sometimes, as I say, in the same posts, but more often with a shifted portfolio.

If I can sum up the parliamentary situation, you have a President in Office for 7 years, exercising this power of appointment of the Prime Minister, but outside of that his influence stems only from what measure of personal popularity or personal prestige he may acquire through his influence on the people of the country as well as amongst the members of Parliament.

President Auriol has been there for 6 years. His term of office has one more year to run. He is an extraordinarily popular man. He holds himself above politics. His influence, on the whole, has been very beneficent. He presides over Cabinet meetings but has no vote. He has been extremely skillful in reconciling the dissensions between parties and in bringing together a sufficient number of parties in order to get their suffrages for someone as Prime Minister.

The Council of the Republic consists of 320 members. It is a more conservative body than is the National Assembly because its members are elected not by popular vote, but by what might be called a corporate voting system. They hold office for 6 years; under the Fourth Constitution they were largely deprived of the influence they had possessed before the Second World War by having their authority limited to a review of the legislation enacted in the popular branch of the Parliament; that is, the National Assembly.

Senator Smith of New Jersey. Will you give us the figures of those two groups?

Mr. BRUCE. The National Assembly has 627 members and the Senate has 320 members, and it is only under very unusual circumstances that the Council of the Republic will be in a position to override legislation which has been previously adopted by the National Assembly.

FRENCH FOREIGN POLICY IS STABLE

One thing, however, in this very shifting scene has remained constant, and that is the foreign policy of France. Traditionally it has been a stable policy, and since 1944 it has remained so. There have been only two Foreign Ministers in the last 7 years, one—Mr. Bidault and the other the present incumbent, Mr. Schuman. There has never been the slightest difficulty in having the Parliament pass—and when I speak of the Parliament I shall now confine myself to the National Assembly, on the assumption that the Council of the Republic as well has ratified the legislation——

Senator TOBEY. What was Mr. Pleven's position?

Mr. BRUCE. Mr. Pleven is now Minister of Defense; a former Prime Minister, a former Minister of Defense, and now again Minister of Defense. Mr. Pleven is the head of a small party called the U. D. S. R., which forms part of a group composed of various parties that are slightly to the right of center.

Senator TOBEY. We have that same thing here.

Mr. BRUCE. Yes, sir; I understand you have.

This foreign policy has expressed itself in the last few years in complete accord, speaking generally, with the views which have been entertained on foreign policy by the Executive and Congress of the United States. The adherence to NATO was carried without any adverse vote, without any opposition, except that of the Communists. The successive French budgets for rearmament have always been adopted, and almost invariably with no opposition except that proceeding from, again, the Communists, and, for another reason entirely, from the de Gaullists. The financing of the appropriations, however, has been the difficulty which has confronted the last two governments, and it will continue during the course of this year to present very considerable obstacles from an economic and fiscal standpoint in France, but as regards policy, I can think of no instance where the major policy objectives, foreign policy objectives, of the United States have failed to meet not only with the approval of the French Parliament, but with the almost whole-hearted endorsement of the French people, excluding again the Communists.

Senator GREEN. What is your basis of judging the French people, the newspapers?

Mr. BRUCE. No, because the newspapers, particularly those in Paris, Senator Green, are notably party organs.

But so far as the French people are articulate in a public way, one gets no repercussions from them in the way of pressures brought to bear upon their representatives in the Assembly against this settled foreign policy.

Senator GREEN. Do they become articulate?

Mr. BRUCE. In popular conversations there is frequent criticism of the so-called occupation of France by American troops; there is localized criticism of all sorts of things, whether it be American or whether it be some other evidence of foreign stay in France, and sometimes directed against the foreign policy itself. When I speak of the reaction of the French people, I am speaking not just of the reaction which expresses itself in the public press with the exception of the Communist press, but especially through representatives in Parliament, who are very responsive in France to the majority will on most questions.

I don't know whether I should labor any further this matter of the French political situation. Perhaps some questions will occur to you that I could answer, and, if not, I will pass on and try to deal briefly with the economic position as it now appears.

STABILITY OF PRESENT FRENCH GOVERNMENT

Senator SMITH of New Jersey. I might ask you right there, Mr. Ambassador, how permanent you think the present set-up will be. Will we have another upset probably in the next few weeks?

Mr. BRUCE. Quite frankly, Senator, I would not believe that the present government, headed by Mr. Pinay, who is an excellent man, would endure for any great length of time, because the base of his government is so unrepresentative from the standpoint of the expressed feelings of the people in the country in their last general election that he is really balancing on a tightrope. That has been characteristic of preceding governments, but the one thing to bear in mind is, so long as the de Gaullist Party is in opposition to any government, so long as the

Communist Party is in opposition to any government, you have the representatives of 45 percent of the people in France opposed to the measures which are sponsored before the Parliament by the executive branch of the Government, and that, of course, is a serious problem. Could the de Gaullist vote be attracted into, or on great occasions join with, that of the other non-Communist members of the National Assembly, the situation would be quite simple, because out of your 627 assemblage only 101 are Communists, and therefore there is a large majority which remains. That Communist representation has been cut down from 180 in the last Parliament to 101 in this one.

But you also have in Parliament 117 de Gaullists, 106 Socialists, 100 MRP with their affiliates, 98 Independents and Peasants, and the Peasants, strangely enough, are divided between the orthodox peasants and the dissident peasants, and so on; as you look at the parliamentary situation and you begin to make your additions to get half of 627 votes you need a great deal of maneuvering, so long as you have a bloc of 101 and another bloc of 117 against you.

POSSIBILITY OF PARLIAMENTARY REVISION IN FRANCE

I think it would be quite easy in France to reform their parliamentary system so that you have the checks and balances that exist, for example, in the British Constitution, and the most appropriate thing in that connection would be to have the National Assembly, and if additional power is given to the Senate, sufficiently aware of and responsive to their responsibilities so that they will not dismiss Cabinets through whim and because of domestic differences, and the consciousness that a careless dismissal might mean the dissolution of the Parliament itself.

I admit that the difference between that and the parliamentary situation in England will always be a wide one because of the multiparty system in France as contrasted to the two-party system existing in England, but the de Gaullists and almost everyone now, with the exception of the Communists, are convinced that there must be some reform in the Constitution.

Senator GREEN. Is it our American policy not to suggest any preference for any particular kind of government?

Mr. BRUCE. We have not and would not suggest it, but in private conversations one is inevitably led into discussions in connection with it, and some of the constitutionalists in France have given this matter a great deal of study; actually from purely the standpoint of amending the Constitution the change that I have spoken of would be a very simple one, very simple in language, and probably certain of eventual ratification by the Parliament itself, and it is commonly estimated now that it should come to pass during the course of this year.

Senator GEORGE. Mr. Ambassador, if there is any part of your oral statement that you do not wish to put on the record, just raise your hand to the reporter.

Mr. BRUCE. Thank you.

Senator GEORGE. Senator Gillette, did you desire to ask a question?

STRENGTH AND FOREIGN POLICY OF DE GAULLE

Senator GILLETTE. Mr. Ambassador, you were answering to a degree a question I intended to ask with regard to the de Gaullists,

in answer to the interrogatory of Senator Green. The information that has come to me indirectly, and I do not know how dependable it is, is to the effect that the de Gaullists have been increasing in strength and prestige, and constituted more of a threat than the Communist group, not only to French stability but that their attitude was one of noncooperation with the other members of the NATO group. Is there any basis for those reports?

Mr. BRUCE. Yes; Senator, there is. The de Gaullist strength increased very markedly until the general election of last year, where they polled pretty close to 20 percent of the vote and where they returned as members of the National Assembly the largest number of representatives of any party, and by virtue of that alone they occupy a position of very considerable power, because one must remember that before that election there had never been such a thing as a de Gaullist Party. There was a loose rally, but they had never had an opportunity in elections for the Parliament to put up any of their own candidates, and so their election success, it seems to me, was a very notable one.

Had they affiliated, which they had the right to do, with other parties, they would have had even more Gaullists in the present Parliament.

But the thing which I think you are chiefly interested in is what is the philosophical or the political attitude of the Gaullist Party toward foreign policy. I have said that French foreign policy, with the exception of the Communists, met with the approval of most of the representatives in the Parliament. That is true. But there has to be a limitation on that statement.

Insofar as General de Gaulle is concerned, General de Gaulle apparently feels that French governments have not adequately protected the national dignity in relation to the position which France occupies in the NATO set-up; that French governments have proved subservient, either to the admonitions or to the demands of the United States Government, and he has publicly announced that if he were Prime Minister he would not permit, for example, the sort of control that we exercise over our air bases in Morocco; that he would have demanded for French officers higher posts in NATO and in the subordinate commands.

And as you go along those lines and follow his thoughts and his written utterances, you will find that it is almost the cry of a man who believes that his country, and protests that his country, has been slighted in proportion to what it is furnishing in the way of defense.

Now, mark you, this is largely addressed to the details of defense, not to a disapproval of the broad plan of defense, not to a disapproval of NATO as a conception or as an organization, but to what he calls the manipulations which have taken place inside of NATO.

Now, in another respect General de Gaulle has been opposed to the French Government on foreign policy. He is not a believer in the theory of a European army to which the French Government is pledged, which has seemed to a great many people the only way to attract Germany safely into the western orbit to avoid the reconstitution of a German National Army and a German General Staff. De Gaulle is opposed to the European army. He is opposed to it for a variety of reasons. He is not opposed, however, to the rearmament of Germany.

(Discussion was continued off the record.)

Senator GILLETTE. That is all, Mr. Chairman.

Senator GEORGE. Are there any further questions of the Ambassador along these lines?

If not, what is the picture of the economic conditions and problems in France?

STRENGTH OF COMMUNIST MOVEMENT IN FRANCE

Mr. BRUCE. Well, Senator, in approaching the economic problems in France, perhaps I should speak of one factor there which is most important and which is between the political and economic and influences both of them, and that is the strength of the Communist movement.

As those of you who were in Europe last summer will recall, at the time of the general election held in France the popular vote for the Communists diminished by between 9 and 10 percent. It still constitutes, however, about 25 percent of the over-all vote. The representation in Parliament was reduced in a very marked degree from 180 seats, as I said before, to 101, and it is very interesting to see the decline of communism and Communist influence as it has been able to express itself in interference with governmental policies of one kind or another.

During the last war the Communist Party in France, in the beginning, before Russia entered the war, was, I suppose, the most evil influence in connection with the attempt by the French to carry on a war that existed within France. But the moment that Russia was attacked the Communists became extremely helpful in the then occupied country of France by joining resistance movements and by contributing more in a mass manner than through individual action. The intelligence derived from them and others was absolutely essential to the people who were planning an invasion of the Continent.

ROLE OF COMMUNISTS IN THE RESISTANCE AND AFTER

The role of the Communists in the resistance movement and in the intelligence-gathering agencies in France has been vastly overestimated. I think I can say that with some confidence because I was closely associated with those activities on the American side and, in fact, was the chief American contact with them. It was exaggerated because the Communists have a talent for publicity, for propaganda, for persuasive statements, which exists among no other portion of the French Republic. However, their role, as I said, in a mass way in the resistance movement was a helpful one.

What occurred was this: The British and later the United States made drops of material to these foci of resistance in France—Sten guns, plastic for blowing up railroad bridges, et cetera. The Communists were better organized than anyone else. They thought of the future more than did any of the other people who were engaged in that type of activity. So when the liberation occurred, there was a strongly organized group in France under direct control from its leaders ready to move on into another domain of enterprise, the political one.

They are said to have had, and I think this is probably true, approximately 200,000 men ready to constitute an informal army at the time de Gaulle became head of the provisional government in France, and it was only because Russia was still engaged in the war, and because things were very difficult for Russia in connection with the struggle against Germany, that the order came from Moscow which made it possible for those guerrillas to be disbanded; otherwise it is extremely probable that they would have taken over the government.

The Communists entered political life, and through their power in the legislative branch passed a series of laws, many of which are still in force and largely responsible for the influence which they still exercise in French political life.

For example, the law which made it possible to confiscate most of the press organs operated in France during enemy occupation resulted in the Communists acquiring without any payment whatever almost 75 percent of all the press in France. The very generous social security system, which fundamentally is an excellent one, was dominated for many years by the Communists, who used it for their own political ends, because it spread over the whole country and it was an ideal weapon, or an ideal tool, to be used by them to build up their party membership and their party influence.

They even penetrated, through the lavish use of money and political control in the provinces, into the rural districts, and when I first went to France 4 years ago one of the chief preoccupations of anyone who was worried about the future condition of the country was the increasing strength of communism in the rural districts of France—something which was never known before. That was due again to skillful propaganda.

PEAK OF COMMUNIST STRENGTH IN 1947

The great strikes in 1947 and the failure of those strikes, the dismissal of all Communists from the Cabinet in 1947, was probably the turning point. In 1948 their last important political strike, the coal strike, which had started off successfully, also came to an unhappy end, and since 1948 the Communist Party has been unable, in spite of propaganda and gathering a great many votes in general elections, to impose its will or to be obstructive to the true interests of the country.

Senator SMITH of New Jersey. Mr. Ambassador, may I interrupt you there just a minute?

Mr. BRUCE. Yes, sir.

Senator SMITH of New Jersey. I remember last summer when we were there you called our attention to the fact that the 25 percent vote was not as significant as it seemed to be on the surface; that probably the hard core of communism in France did not exceed 10 percent. Do you still share that view?

PRESENT STRENGTH OF COMMUNISTS EXAGGERATED

Mr. BRUCE. Yes; I do. I think the Communist Party membership is probably about 500,000. L'Humanité, the chief Communist newspaper in France, which formerly had a circulation of 600,000, now has a circulation of about 180,000. No strike has met with

any measure of success since 1948. No attempt to prohibit or impede the receipt in France of American military materials has ever had success, nor have they been able to stop the shipment from France to Indochina for that war, which is really unpopular amongst the mass of the French people. The Communists have never been able to stop any of those shipments.

The great demonstration programed against Eisenhower when he came to Paris was the most carefully planned demonstration that ever took place while I was there. It was a complete fiasco. Many people were put into jail, every Communist who had a government position and participated in that demonstration was dismissed from his office. The result was that when a much better target, Adenauer, came to Paris they wished to have a demonstration against him, but knowing they would either be jailed or lose their offices, if they occupied public offices, that demonstration resembled what you provoke against an umpire whose decision you do not like at a ball game, so their manifestations came to naught.

Their attempt to carry out political as distinguished from purely wage strikes has been fruitless, and in every respect I would say that communism in France, although it is a threat and a threat that ought to be constantly watched, does not present a present crucial danger.

But you have, as regards voting, great dissatisfaction amongst a large number of people in France over their social conditions, over low wages, over the repeated inflation which robs them of their savings, over the economic as well as the political instability. That ordinarily expresses itself by a vote for the Communist candidates in a general election or it has so done for the last 7 years. But when you come to the action side, the hard core, the so-called militant core of communism, in France it is not reckoned to exceed 50,000 people—the whole Communist Party membership not to exceed 500,000. In the great labor movement, the CGT, again you have a sample of the decline, although you also have it pointed out as a favorite example of how strong communism must be.

GROWTH OF NON-COMMUNIST LABOR UNIONS

The CGT claimed in 1946 a membership of 6,360,000 people; in 1950 they claimed a membership of 3,600,000. The actual membership of CGT according to its own leaders in private conversation does not exceed 1½ millions. The two great non-Communist unions, the CFTC, the Catholic Union, and the FO, which is a split-off from the CGT, those two unions, have a membership of between five and six hundred thousand each. There are smaller non-Communist unions, but taking it by and large, the membership of the Communist union in France is probably as great as the membership of all of the non-Communist unions combined.

However, the drop-off, the defection from the Communist labor unions, has not necessarily expressed itself in an adherence to the non-Communist labor unions. It has expressed itself in a refusal on the part of the defecting workers to join any union, so in a total working population of about 20 million people you have a union membership probably of between three and three and a half million. I speak of a working population of 20 million because there are agricultural unions as well, and one-third of the workers in France are engaged in agri-

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cultural pursuits, and that may not be a comparison that is fair in comparison with our own country, where our agricultural population is so much smaller proportionately, but certainly the majority of the urban workers in France are not organized in any union, and therefore to assume that because the Communist union is the most powerful, there is a tremendous Communist movement directed to the sabotage of industrial development in France I think is erroneous, if for no other reason than because of the figures.

Now, there is another reason why it is not as important as it may seem. Every time that the CGT, which has extremely strong leadership, has attempted, as I said before, a political strike in the last 4 years, it has failed and failed miserably, but let the CGT advocate a strike for, let us say, better working conditions or a rise in wages, and then it has a very real influence, though many of the members, literally hundreds of thousands of the members of the CGT, do not consider it at all as a Communist union. They belong to it; it is a traditional French union; it was the only one of any consequence for a long time. They would probably regard it as about as conservative as the average man years ago would have regarded the CIO or AFL here, and many of them will say to you, "My union is not in politics."

Actually it is a political instrument, and a very great political instrument, but one whose influence has declined just as its membership has declined, and one also where the actual strength of membership, the million and a half of which I have spoken, is deceptive as representing pure communism, just in the same fashion that the vote of 5,000,000 for the Communist Party in the general election is deceptive as representing Communist strength, doctrinal Communist strength.

Well, so much for communism, unless there is some question about it.

Senator GEORGE. Are there any further questions?

DEPENDABILITY OF FRANCE

Senator SMITH of New Jersey. Just this thought: We are planning to send over this vast amount of matériel, tanks, and so forth to this army over there. It would be a very critically serious thing if there was any danger of France defecting with her divisions and going over, taking that matériel to the other side. I get the criticism constantly, "Aren't we throwing a lot of money in there on a chance that France might explode?"

I agree with you; I think you have made a very strong case for the ultimate stability, but I am very much concerned that I answer that question correctly.

Mr. BRUCE. I personally feel that there is no danger of that whatsoever. The Army, Navy, and Air Force has been cleansed of what open Communists they had. Obviously as the young French conscripts come in you have some young fellows who probably are inclined to communism, but that has proved to be, in the case of the Army, Navy, and Air Forces, a transitory thing. Nor do they ever cause any trouble in the system of conscription.

But the best illustration that I know of is really what occurred at Cherbourg. There was a great doubt entertained amongst many elements in the French population as to whether our shipments of

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arms would not be left on the docks and sabotaged, or even meet a refusal to unload [illegible]. I remember going up to Cherbourg a few days beforehand to talk to some of the local authorities about it.

The union at Cherbourg, the longshoremen's union, was dominated by the Communists. The word had gone out from Paris headquarters, on directions from Moscow, that these blood-shedding weapons were not to be unloaded; they were against the interests of France, et cetera, et cetera. Everybody anticipated trouble, and they sent troops into the neighborhood.

The longshoremen met in a Communist headquarters a few days before the first shipment was to arrive, and there was a great deal of oratory, but the vast majority immediately voted to unload the American arms.

Now, their doctrine, the doctrine of the members of that particular union, had no weight whatever as compared with their desire to obtain employment. Nor do I believe that the majority of members of the Communist union have any strong doctrinal bias. Duclos, eloquent orator that he is, can attract large audiences. His mass meetings are usually called for the purpose of advocating some action, some violent action, to be taken by the party. The mass meeting disperses, but the action never takes place, and that has gone on steadily for the last 4 years. Thorez is in Moscow, supposedly ill. At any rate he has been eliminated from the scene.

And so you have this constantly diminishing power exercised through the official organs.

Is there a Communist underground which functions outside of these open organizations? I doubt it. When the French Government last year outlawed, refused to have present or meet on French territory, any of the international Communist organizations, the people in the Government who took that action anticipated a tremendous storm, strong opposition, probably evidenced in manifestations in Paris, manifestations in front of the National Assembly against this decision. It was a pretty arbitrary business? Nothing happened.

When they dismissed a considerable number of mayors and submayors in the Seine district because they were Communists, there was talk about a new Commune; the outraged citizenry would march on the Palais Bourbon, where the National Assembly meets, and begin to fire the public buildings, as they did in the Commune of the 1870's.

Nothing whatever happened. There wasn't a corporal's guard of people who attended the demonstrations that had been called for, and the majority of the people in my opinion scorn communism.

They are interested, however, in what the Communist labor union, in what the Communist Party, will promise them in the way of better working conditions, higher wages and so forth, and they are interested also, and influenced, there is no question, by propaganda, by false but powerful propaganda.

EFFECT OF AMERICAN AID ON COMMUNIST STRENGTH IN FRANCE

Senator GREEN. How far do you attribute the waning of communism to the supplying of American aid?

Mr. BRUCE. Well, I think that American aid, Senator, was responsible for France not having, before 1950, a Communist Government.

I think the Communists undoubtedly, because of what seemed to be the impending bankruptcy of the country, would have seized the Government. I imagine the same observation would apply even more aptly to Italy. Had those two countries gone Communist, then I believe even the Iberian Peninsula, and certainly the rest of Western Europe, would have gone Communist as well.

In that respect the Marshall plan saved Western Europe from communism. I have this profound conviction, and I think it is a conviction which is shared even by people who in France and in Italy are very antagonistic to the United States and United States policy. It has become an accepted fact among the leaders of the Communist Party that they would have attained power in those countries had it not been for the extension not only of Marshall plan aid but in the case of France and Italy of the temporary aid preceding Marshall plan aid, when the situation was even more serious than it was later.

Senator GREEN. Would you think that the conclusion of American aid would affect the Communist movement adversely from any point?

Mr. BRUCE. Well, you are speaking of not carrying on with the military defense?

Senator GREEN. Not necessarily any particular kind, but stopping supplies of one form or another or money in one form or another. Would it have a corresponding countereffect?

Mr. BRUCE. It is a difficult question to answer unless one views it in segments, but let me take the more obvious one.

(Discussion was continued off the record.)

FRENCH COAL PRODUCTION AND IMPORTS

Mr. BRUCE. Then because of the reduction in wheat land, because the farmers did not like the price of wheat, and as a great bread-consuming country, as soon as you have a bad wheat crop you begin to import wheat.

Also, I do know that the French spent $120,000,000 importing American coal, the most illogical importation one could possibly conceive of, but necessary because of the dislocation of the coal trade, where England once threw off great exports of coal, where you got coal and coke from Germany and Polish coal flowed more freely, and France had always been the largest single importer of coal in the world but independent of importations of American coal.

I say that about American coal because the freight rate from the United States to France is higher than the price of the coal itself which the merchant or producer in the United States receives. There it is, completely uneconomical, and that in a time and in a year when the production by France of coal was the highest in French history, when the output per man-hour in France in the coal mines was the highest in French history, when France theoretically was in the best situation in its history in relationship to coal.

But so great was the shortage because of the failure of supply from normal sources that not only did they have this really crushing strain on their dollar balances, but at the same time their steel mills could operate at only 85 percent of capacity, whereas the steel mills in Germany were operating at 100-percent capacity.

And so this economy, which looks so beautifully balanced, breaks down because of one thing, and that is in Metropolitan France, and

so far in the French Union, nobody has succeeded in discovering those key raw materials on which a modern industrial economy lives.

France has practically no oil, with the exception of the 23¾ percent interest in the Iraq Petroleum Co., and then they have to make their payments for capital investment in the Iraq Petroleum Co. in sterling or in dollars.

France is dependent upon importations for its copper, for 90 percent of its wool, 80 to 90 percent of its nonferrous metals. And you could run down the list of essential commodities, and particularly those useful for war purposes, and find that France is deficient in most of them, including metallurgical coke. That last is going to be corrected in part, I think, by a new process for the use of iron ore which is going along very well. But to deduce from what I have just said, that the economic situation of France for the future is one that is going to make France forever dependent on the United States is not a conclusion that I would draw at all. What I say is that these stresses, which had almost been overcome, and I think would have been overcome in the absence of the great rearmament effort, will have to be handled, and carefully handled, until such time as the structure itself becomes more solid, and then, with the productivity in France, with the native industry of the people and the extraordinary ingenuity of the people, with their thrifty habits—thrifty in ordinary times, not thrifty when the franc is bouncing up and down like a balloon—you ought to have again a reestablishment of capital markets so that France becomes a borrower from private sources and not a dependent on external assistance.

But when that period will come to pass and how it will come to pass is another question. But, having gone around in a circle, to answer your question I would say that the future of France, in the absence of fairly substantial aid from the United States, as regards particularly this rearmament effort, is one that is economically and financially gloomy.

EFFECT OF CUTTING OFF ECONOMIC AID TO FRANCE ON ECONOMY AND COMMUNISM

Senator GREEN. The reason I put my question in general terms, not referring to any particular kind of aid, I think is justified by your reply. To put it another way and to make a specific application of that, won't the provisions not only for military aid but rather for economic aid as distinguished from military aid, if you can make such a distinction, to a certain extent take the place of other kinds of aid which have been hitherto given, and won't it have a certain effect on the communism or the waning of communism to which you previously referred?

Mr. BRUCE. I think undoubtedly so. I think the connection is immediate, because—let me take any simple instance. I don't know to the purchase of what raw materials aid earmarked as coming from the United States funds has recently been directed, but I will take one at random. Let us suppose that France must buy copper. Having exhausted the possibilities of buying copper, let's say, from Belgium, and being forced to buy from dollar sources, France is dependent upon dollar credits in order to get that copper.

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Without that copper you are going to have unemployment in the great metallurgical industry, the metalworking industry, the most powerful industry in the Paris region. If you accompany that by a shortage in other raw materials which affects the people in that district, I think you would very quickly have an unemployment of proportions that would make the people restive enough to explode. The natural form that explosion always takes, perhaps not alone in Latin countries, is to express itself in a protest against the government in power.

You have got a power outside of government, with representatives as well in it, which is one of the most marvelously organized things in the world, and therefore I think that the shutting off of those elements in the economy, of those factors in the economy, or the lack of provision of those raw materials on which the economy rests, in the next couple of years, or maybe for a longer period of time, would be exceedingly dangerous and perhaps fatal from a social standpoint.

I think one would have the same impression if one directed his attention to other industries. I spoke of the Paris region because it is so often used as an example of the complex industrial situation in France, but as I said, the curse of France is its dependence on outside sources for raw material, and in fact the sources from which it ordinarily derives its raw materials are no longer available to it because of the general dislocation of foreign trade.

I don't think the French have the only problem. I think the English problem is equally difficult for a variety of reasons, but at the present time the French are absolutely dependent on this aid which they cannot obtain through ordinary bank credits, and the situation in that respect is critical. It has never been more critical.

Senator GREEN. Then you would agree, would you not, that in addition to the arguments that are made that it is necessary to have these products for military purposes, or, to put it under the head of mutual security, it is also desirable that it should be given there from the point of view of economy because it is a great deal cheaper, and there is also the argument that it tends to prevent the resurrection of communism there. Is that right?

Mr. BRUCE. I think all of those arguments are correct. I think they are firmly based. I am sorry to say I am not familiar with the provisions of the mutual aid bill, and I am not in public office at the moment, but I will comment if you wish.

Senator GREEN. Perhaps your advice will be more valuable for that reason.

Mr. BRUCE. I really do think, and it would appear to me from the long-range interest of our country, that the mere furnishing of military aid materials without the accompanying provision that would enable these countries to preserve a sound economy and to engage themselves in some satisfactory level of military manufacture would be a very foolish procedure.

Senator GREEN. Thank you.

FISCAL AND MONETARY REFORM IN FRANCE

Senator TOBEY. Mr. Ambassador, do you feel that because of the debacle in the franc it is necessary to have a reorganization of the French currency and monetary system?

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Mr. BRUCE. I would assume it would come about in time, but let's recollect that in 1948 the franc was selling in the black market at 540 to the dollar, and then it went down to something like 350 to the dollar, and the resiliency in the French system is such that probably a similar thing could be accomplished again with very strict credit controls and the enforcement of other controls against inflationary processes. Whether that might be politically practical or fiscally possible I would not venture to answer.

GOOD WILL IN FRANCE TOWARD UNITED STATES

Senator TOBEY. Mr. Ambassador, you paid a fine tribute to the efficacy of the Marshall plan. May I ask you this question: Would you say there is a fine feeling of gratitude on the part of the French people to America for that which she has done?

Mr. BRUCE. Taken by and large, there is certainly amongst the more intelligent people and amongst the more reflective people. There is no question about it whatever. We have always labored under an illusion, I think, when we thought that the Marshall plan was not well known to the people in France. Nothing was ever given such publicity as it was given in France. Many a Frenchman will tell you, in spite of the fact he is thoroughly familiar with it, that he never heard of the Marshall plan. The French are not very outpouring so far as effusions or public gratitude are concerned for the Marshall plan or any other aid, but I would say there is a deep consciousness that the Marshall plan had saved them from chaos.

Senator TOBEY. Is there a preponderance of good will in favor of America?

Mr. BRUCE. There is no question about it.

Senator HICKENLOOPER. That good will is especially evident in the Government officials who realize the situation, and in certain top businessmen who realize the situation, and as you say, in certain thinking people which may compose a small group in numbers. But compared with the total population in France, the impression I got was that the average Frenchman says, "Yes; I have heard about the Marshall plan, but it didn't do me any good. Where did the Marshall plan help me? I had to pay francs for my new tractor. Maybe the Government got it for nothing, but the Marshall plan did not help me, except by remote control, and I am not concerned about that."

So when you get down below a certain level the Frenchman says, "Yes; I guess in some remote way it has been a great help to us, but I paid francs for it."

Mr. BRUCE. Senator, you are quite right, that as regards the purchases by French citizens of items supplied through Marshal plan aid, they are not only skeptical but they are unbelieving that the United States Government did anything for them individually, and it is quite easy to understand because of almost the illusion that people entertain as to how counterpart operated.

The French farmer from the countryside went in and bought a tractor. If it was an American tractor or a Canadian tractor, if it was supplied by Marshall plan money he would have had every reason to be completely unconscious of the fact that it was supplied by Marshall plan money, because he paid the going market price for it. The American taxpayer had provided the dollars, the French Govern-

ment got the francs from the purchaser, and the French Government officials sat down with the American authorities and decided how that peasant's payment for the tractor, which became mingled with other sums from similar sources, was going to be distributed in the French economy.

The money of a man living near Chartres on a wheatfield may very well have gone as a contribution toward the building of a dam on the Rhone River.

Senator TOBEY. But you have to view it in the spirit that the whole is greater than any of its parts.

Senator WILEY. What was that?

Senator TOBEY. If the Nation benefits without the individual seeming to benefit——

Mr. BRUCE. Remember, the individuals affected constitute a minority of those people affected by the expenditure of Marshal plan funds Marshall plan funds for the most part, in the critical years, went into the restoration of the basic industries of France, the rehabilitation of the completely shattered railroad system, the development of her hydroelectric power, the modernization of coal mines; into, as I say, great basic industries where the expenditures in a sense were anonymous but were massive. The purchase of a tractor or the purchase of farm machinery or any other kind of machinery, even when it was for a factory, was a fairly small item compared with the total Marshall plan funds expended in France.

Senator TOBEY. Has the International Bank made any loans to France?

Mr. BRUCE. Yes; and the Export-Import Bank has made very large loans. The servicing of loans for interest and amortization this year, on the French debts in the United States, amounts to $140,000,000, and that, as I say, in a country where the total gold reserves of the central bank are only $550,000,000.

FRENCH AWARENESS OF AMERICAN AID

Senator HICKENLOOPER. Mr. Ambassador, isn't there a little sort of reverse illustration that might illustrate what the average Frenchman thinks about the Marshall plan? For instance, the average American will look at some vast expenditure that the Government is engaging in and say, "Well, the Government is doing that." That is some mysterious source of money that the Government has and is providing, and the individual seldom rationalizes—he may give some superficial consideration to it—that that is costing him money. The Frenchman says, "Well, maybe the Government is getting it, but I am paying for it in francs. It is out of my pocket and out of my earnings," so that the reservoir of unbounded worship which perhaps we may be deluded from time to time into thinking these people have for us is not quite so great as we would like to have it. They may have a sense of superficial gratitude and pass it off, but they can be very easily incited against us, and the so-called gratitude would not be a dam against the inciting against us as the occasion arose.

Mr. BRUCE. I have a notion, Senator, that gratitude is not a very enduring quality, particularly as between nations.

Senator GEORGE. It does not exist, Mr. Ambassador.

Senator TOBEY. Shakespeare said it was the noblest human quality, sometimes conspicuous by its absence.

EFFECT OF INDOCHINESE WAR ON FRANCE'S CONTRIBUTION TO NATO

Senator GEORGE. Mr. Ambassador, do you think France will be able to carry on this Indochina War and also make any substantial contribution to the NATO Army?

Mr. BRUCE. Yes, I do, Senator, but let us examine into what you mean by "substantial." In Indochina there is now engaged a French Union Army as of today of approximately 200,000 men. Now, of those 200,000 men, roughly, as I recall it, 42,000 enlisted men, about 7,000 officers, and about 28,000 noncommissioned officers, come from metropolitan France.

There you have a total of about 77,000 men from metropolitan France in the French Union Army.

The very high proportion of officers and noncommissioned officers is the thing that has the greatest effect on the military situation from a manpower and training standpoint in France, because that is a professional army.

When you try to break the army figures down by nationalities or by the place of origin from which the individual comes, one acquires a deceptive idea of the French military system. It is in every sense of the word a French Army, and the best army that France is capable of putting into the field anywhere.

There are a large number of north African troops there. Many of those north African troops are French citizens. They happened to be drawn from north Africa. They also supply a considerable number of noncommissioned officers, about 2,700, but less than 100 officers.

Then there are the natives, drawn not only from Indochina but from other French territories. They supply very few officers, and about 5,000 noncommissioned officers. Those noncommissioned officers are being built up so as to take over such forces in Indochina as are completely national in character, as distinguished from those forces which form part of the professional French Army and have always been incorporated in the French Army.

DRAIN OF INDOCHINESE WAR ON FRANCE

So what in effect one has done with regard to NATO is to have subtracted from the French potentiality of supplying troops in Western Europe approximately 200,000 men.

Now, in addition about 25 percent of all the people in the French Navy are engaged in Indochina, and much of the merchant fleet is ferrying back and forth between Indochina and France.

In the air force the only real combat air force which France has today is active in Indochina. There are not enough pilots in the schools and in training in metropolitan France, so the whole Indochina adventure has an indirect repercussion of a military nature on the effort to be made in the west.

If you look at it from the financial standpoint, you have a very striking illustration of what the effect of the operation in the Far East

is having on the operation in the west. In the French military budget, let's take it at 1,400 billion francs, or roughly $4 billion—there is presently scheduled the expenditure of about a billion two hundred million dollars for Indochina. I don't believe there is any question in the mind of anyone who follows the military expenditures in France that the expenditure may well rise to a billion and a half dollars this year. A billion and a half out of the 4 billion may be devoted to the effort in Indochina, but beyond that most of the munitions, a great portion of the war matériel which is produced in France, is being shewed up in Indochina.

The losses there in men actually killed excluding Asiatics in native armies now exceed 30,000. Those are dead. The proportion in those losses of officers and noncommissioned officers has been extremely high. I give you an example The school at St. Cyr, which has been mentioned to you before, has lost in graduates between eight and nine hundred officers in Indochina in the last 3 years. If you would compare that to casualties amongst graduates of West Point in Korea, I think you would believe that the effect on the training program in metropolitan France, the NATO training program, is bound to be very great.

It is true that most of those men are junior officers, but service for them in Indochina is compulsory, and it is a great gaping wound not only in the French military system but in the French economy as a whole, because the expenditures of Indochina from a financial point of view about represent the deficit in the French national accounts.

Altogether, I think in the last few years from the beginning of the Marshall plan, something like $2,800,000,000 has gone to France in direct and indirect aid. The expenditures in Indochina through 1952 will be in the neighborhood of $4,000,000,000, so what in effect has taken place, from a purely accounting standpoint, is that the carrying on of an operation in the Far East has more than absorbed all the external assistance provided France from the west.

There is no use of our saying this situation is impossible, that we can't have at the same time some sort of contribution to the west from France, because we can. One of the reasons we can is because of the extraordinarily low cost of maintaining French soldiers in the field. There have been three successive pay raises in the last year. A French soldier was paid 77 cents a month during the year 1950. A French soldier now gets $4.26 a month.

Together with their conscript system, the French should be able, dependent on an infusion of assistance from the outside, to carry on combat in Indochina and at the same time make a fairly respectable contribution, and when I say "fairly respectable" I mean as many or more divisions than any other nation may furnish, to western defense.

Senator GEORGE. You said just now that the French expenditures in Indochina during the same period they have been receiving aid or assistance from us amounted to something like $4 billion?

Mr. BRUCE. About 4 billion.

Senator GEORGE. Is that in dollars?

Mr. BRUCE. That is expressed in dollar terms. It is not in dollars.

Senator GEORGE. It is expressed in dollar terms?

Mr. BRUCE. Yes, sir.

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FRENCH TAXATION

Senator TOBEY. When Secretary Acheson was before us, he spoke optimistically about his faith that France would be able to meet her budget requirements by taxation. How do you feel about that? Do you share that optimism?

Mr. BRUCE. Well, I hesitate to speak in front of the chairman of this committee about tax problems, but I will have to express a personal view about it.

Senator TOBEY. He is a past master.

Senator GEORGE. Oh, no.

Mr. BRUCE. I know he is.

Here is the situation in regard to French taxation. No subject that I know of has ever, it seems to me, given rise to so many misunderstandings.

From our standpoint, are we interested in the equity of taxation in France or are we interested in whether France is pulling her own weight?

Senator TOBEY. We are interested in that she gets the money.

Mr. BRUCE. If it is the latter, let me say this: For some years past, for a period of 4 or 5 years—I would have to look this up—the amount of money collected in France in taxation in proportion to the French national income has been far greater, usually running 20 percent or greater, than the amount of money collected in taxation in the United States in proportion to our respective national incomes.

Secondly, France has during that whole period been the second highest taxed western nation, Great Britain being the first, of the major nations.

Third, although the administration of the French tax system is inefficient, although the tax system itself is extremely inequitable so far as the incidence of taxation is concerned, when it comes to extracting the most feathers from the goose with the least squawking it has been an extraordinarily effective tax system.

If the evaded taxes, which are estimated to amount to about one billion and a half dollars a year, were actually collected by French tax authorities, you would have, because of the curious system of taxation, confiscation of many enterprises and confiscation of the whole income of many individuals.

What is the reason for that? The reason for it is that going back to the time of the French Revolution, when certain classes in the population were totally exempt from taxation, the French built up a resistance to the ordinary, apparent forms of taxation, particularly income taxes as the years rolled on, and became more or less quiescent under the exactions of the tax gatherer when those exactions were expressed in terms of indirect taxation.

About 75 percent of all French taxes are collected in indirect taxation. With us it is about 15 percent; in Great Britain it is about 40 percent.

FAIRNESS OF FRENCH TAX SYSTEM

Those who are interested in taxation from a socialpo int of view, whether a system is regressive or progressive, could never find, it seems to me, a better subject for inquiry, or a better subject for complaint, than the tax-gathering system in France. It is true that

in France last year they collected over 100 billion francs in delinquent taxes. This year they expect to collect about 160 billion francs, roughly $450,000,000 in delinquent taxes. It is true that last year over 400 people were jailed and given penalties and sentences which are approximately 50 percent stiffer than anything that has ever been given by us for similar evasions. It is true that the number of people being picked up is becoming greater and greater, and as I say, it is a most interesting subject for speculation and investigation.

But it seems to me what we are immediately interested in is in having the French, although they are reforming their system, and so-called fiscal reform is one of the great things which the Pleven, Faure, and Pinay governments have advocated—what we are interested in is whether the French are taking from their people in taxes collected the greatest amount of money which the population is able to pay without completely disrupting its own economy.

On that basis my answer would be that they probably are, and I defer to you, Senator, if over 30 percent of a gross national product is not about all that a country can reasonably stand in the way of a tax load; it has been usually considered in the United States that when you get over 25 percent of your gross national product collected in taxation, national and local, all taxes in the country, you have approached the margin of safety.

Senator GEORGE. At least you have gone into inflation.

Mr. BRUCE. Well, there is inflation in France, rampant inflation, because of a great many reasons. It is the internal curse of France, just as the deficit in the balance of payments and lack of security are the two external threats. With that inflation there is going to be a rise in tax collections this year if one expresses them in dollar terms. I think I would conservatively say that the statements that have been made to you on the subject of the collection of taxes in France in relation to gross national product are correct statements. They include, of course, the social security system as the British accounts include it, and which necessarily must be included in any reckoning of how much the people contribute to government.

The social security system is not included in the French budget. The French budget is a most confusing document, but I have spoken here of military expenditures. I distinguish them from what appears in the French budget for military purchases, because there are large sums in the French budget expended for military reasons, and particularly in Indochina, that do not appear except in the civil portions of the budget.

So this question of an analysis of the French tax system is one, as I said, that deserves study, but the result has been an effective collection of about as much as that country can turn over to the central government without, in my opinion, gravely impairing its economy.

TAX EVASION IN FRANCE

I object as strongly as anyone could to the evasion of taxes, but I can't help recollecting that human nature is such that those classes that evade taxes in France are going to be extremely difficult to collect from for a long period of time.

What are the classes that evade taxation there, or who do not pay the full amount of their scheduled taxes? The farmers, the nonincorporated business enterprises, and the professional men.

The farmers are subject to income-tax collection, but the real tax collected on them is through a tax on the assessment of land values.

Senator TOBEY. Henry George's theory.

Mr. BRUCE. I own a farm myself, and I know how difficult that form of taxation is to assess on farmers.

With their professional men, France is not a country where transactions are ordinarily check transactions; they are cash transactions. And the professional man has become quite adept at pocketing his fees and having no record of what at least part of his fees are.

As to the small professional man, remember, the average income in France is less than a third of the average income in the United States. Its gross national product is less than 10 percent of the gross national product of the United States, although its population is only a little over one-quarter of our population. The small professional man with a small income is very difficult to catch up with.

What is the third class? The third class is the nonincorporated businesses. France is a country of small business, but in the ordinary French family everybody works. The wife keeps what they call the cash box, because there is no cash register. There is a box of money and she always gets hold of it. The girls and the boys work around in the store. That business is not incorporated. As they don't keep books, as they don't make deposits in banks because there is still a widespread distrust of banks on the part of a great number of people in France, and the smaller the business the more they distrust the banks. They keep their money in cash, and how my friend Tom Watson and all the business machine manufacturers in the world are ever going to make a dent in the mass French market I don't know, because as soon as you have a business machine you have to have a bookkeeper, and to ask the average French small family to employ a bookkeeper is something which would simply be beyond their contemplation, would make them extremely suspicious, and they wouldn't do it anyhow.

I am not being facetious about it, but that is one of the great problems, because the escapees from taxation in Franch happen to be what you would call the lower middle income taxpayer in this country.

In your incorporated businesses, amongst the people whose money is invested money as distinguished from fly-by-night or racketeering money, there is very little opportunity, according to tax collectors, (and a very interesting group of them came over here last year and examined our system of taxation and began to apply a good many of our methods) there is very little escapism, because a few years ago the Government got a record of all the large landholdings, and of practically everything except capital which has fled from the country and sterile capital like gold bars.

This idea of triple books in a corporation—all of you are familiar with corporate accounting, and you know it would be most difficult in a big enterprise to keep triple books.

Senator TOBEY. Some men are in jail for it.

Senator HICKENLOOPER. You cannot keep triple books if there is an honest attempt on the part of the tax collector to find out.

Mr. BRUCE. It is the individual, who goes astray, usually, rather than the identifiable large corporation.

Senator HICKENLOOPER. There are certain countries where the alleged tax collector knows that there are three sets of books, and he looks at one and settles for that.

Mr. BRUCE. I will settle with you, Senator, on the unincorporated businesses having a preference over the incorporated ones in that regard, because it is easier.

GOLD AND DOLLAR HOARDING

Senator SMITH of New Jersey. Just in this connection I would like to ask you a question that was called to my attention the other day. The statement was made that probably there is in France and in Western Europe not less than seven to nine billion dollars in American currency, hoarded by people. Have you ever heard that story?

Mr. BRUCE. Do you mean gold?

Senator SMITH of New Jersey. No; I mean primarily in greenbacks.

Mr. BRUCE. No; I have never heard any amount put on it. I would have thought that that would be far easier to check than gold, because I should think our Treasury people would have some idea of the amounts outstanding.

Senator SMITH of New Jersey. It may be that the gold was mixed up to a certain extent, but I had it called to my attention that everybody has overlooked this fact. I am looking into it now. I wondered whether you knew anything about it. That check could be made very easily.

Mr. BRUCE. Particularly the currency might be checked, but the amount of hidden gold holdings in all the countries of Western Europe and the Far East as well I would have thought to be impossible to ascertain. We have no idea, for example, of what the accumulations of gold in Russia is. It is one of the mysteries, what in the devil have the Russians done with that enormous gold production which has been piling up?

Senator SMITH of New Jersey. I asked Mr. Bissell, with the ECA, and he wrote me quite a long letter on this subject, pointing out that attempts had been made to locate this gold, and it was practically an impossibility, and he did not comment on this other point I am making with regard to the currency.

Mr. BRUCE. I have no knowledge of the currency. The black market currency disappears. I have not engaged in black-market operations myself, but I would have thought you would be more likely to find a portion in the form of deposits in banks in the United States, Central America, and Switzerland, and eventual transfers to the United States.

Senator HICKENLOOPER. What is the source, or has it slowed up, of the American currency in the free market in Lisbon that used to operate, and in Tangier? Was that considered to be Central European money that came out after the war?

Mr. BRUCE. Tangier, as you know, is a huge international trading center.

Senator HICKENLOOPER. There is a free market in Lisbon, I understand.

Mr. BRUCE. When I was leaving there I was actually astonished to see an official exchange booth at the gate in the airport, and I took my escudos and asked that they be exchanged for francs, and the manager said, "Wouldn't you rather have dollars?"

I said, "Do you change for dollars?" and the manager said, "It is a matter of complete indifference to me." That was 2 months ago.

ECONOMIC AID AND DEFENSE SUPPORT

Senator SMITH of New Jersey. I would like to ask you one more question. You know we went through the motions of bringing the Marshall plan to an end, and I think that was done last year. We use the expression now "defense assistance" instead of economic aid, on the theory that the whole aid program is geared to the military necessities, and what we are doing in the way of economic aid is part of that operation.

I get the impression from your testimony this morning, entirely aside from the gearing of economic aid to the military program, that you think we have to give economic aid to France if she is going to survive and make any contribution at all to the military, and if she is going to carry on her operations in Indochina.

Mr. BRUCE. The effect of your defense assistance—is that what you call it?——

Senator SMITH of New Jersey. I think that is the expression used.

Mr. BRUCE. On a country like France would have a pervading influence over the whole economy. There would be some concentration in the military sectors, but it is in the military sectors of the French economy that that type of aid has now become an essential one, because it is the provision of those raw materials directly and indirectly related to the military effort which are most essential to provide for the French economy.

Now, I suppose there is a certain bookkeeping balance, because if the French had free dollars which otherwise they were to spend on the defense effort for the purchase of defense materials, and they were relieved from spending the free dollars, and, although they do not happen to have them—this is in theory—they were relieved from spending the free dollars in that way, they would then transfer and spend them for the necessary imports in the nonmilitary items, so that the net result might be the same thing, but as I understood it, the theory of the defense assistance aid was to see that American money which went in that direction would contribute directly or indirectly to the defense effort, and there would be tangible results received in the way of production or in the way of an increased military establishment in the country to which that aid has been devoted.

In the case of France—I can't speak for the other countries—it is an absolute essential unless the whole structure is going to break down and if France as a NATO partner is going to be able to participate to the extent she should.

Senator SMITH of New Jersey. I think that feeling is very important, because there has been a lot of feeling that we should cut out a lot of economic aid or defense assistance, which is another name. That will be attacked on the floor. Many people do not quite understand that. They think we are carrying on the Marshall plan under a new name, which of course it is not. We have put an end to the Marshall plan as such, but we are developing our MSA with this emphasis on the security end of it.

Senator TOBEY. Mr. Chairman, I have been sitting here this morning. It is the first time that I have met Mr. Bruce. I want to say before we think of recessing that I have been very much impressed with the presentation he has made and the fine answers he has given

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to our questions, and I say, "thank God we had a man like that representing the United States in France." I mean that very sincerely.

Senator GEORGE. Thank you very much. I am sure Mr. Bruce appreciates it.

Mr. BRUCE. Thank you.

Senator GEORGE. Mr. Batt, I don't believe we will be able to get to you today. You may have to come back tomorrow. Would it be all right now for us to call General Olmsted around, and Mr. Cleveland?

QUESTION OF EUROPEAN INTEGRATION

Mr. BRUCE. Mr. Chairman, may I trespass upon your time a little longer to say one more thing. If there is to be a record, I would like to get this in the record, and I know it is a matter of interest to all of you anyhow.

I would like to deal very briefly with the question of European integration, which covers, as you know, the Schuman plan, the European Army, and eventually, so it is hoped, a federation or confederation in Europe.

The Schuman plan was designed for the pooling of the coal and steel resources of six nations in Western Europe. It is on the point of final ratification by the parliaments, and in all probability will soon come come into being.

Connected with it are supranational institutions to which the participating countries have surrendered in certain degree portions of their national sovereignty. It will constitute a huge free trading area within its confines.

The European Defense Community Treaty is, I think, about to be finally drafted. It should be ready some time early in April. It will then have to be approved by governments and submitted to the parliaments of the respective member states.

It has been a most interesting exercise. It is a fascinating thing to think of, because it goes much further in impinging on national prejudices and national consciousness than did the Schuman plan. The Schuman plan, great is it was in the economic field, did not arouse some of the violent reactions both pro and con that the European army plan has.

The European army plan as approved in principle by the NATO nations in Lisbon provides for a commissariat which in effect would replace the individual defense ministers of the six participating countries. That commissariat, which I assume will have a president, will have delegated to it certain portions of the sovereignty of the participating nations. There will be a council of ministers who will have great authority in the beginning. There will be a general assembly, which will be more or less the same as that of the Schuman plan. There will be a court which will have the power of review over the adherents to the treaty obligations, and in certain other respects.

Here there have come into being, in the case of the Schuman plan, and there is every expectation that there will be a European army, two instruments which are more calculated to still the animosities which prevailed for centuries in nations in Western Europe than anything which has ever occurred in our time, and I happen to feel rather deeply about it personally, because of what I think its implications are for us.

We have been dealing in connection with these military programs with a great variety of countries. We have had to deal with them on a bilateral basis. As regards those who join the European Defense Community army, in the long run I can think of nothing which is going to forward our policy to the same extent as this growth toward integration in Europe.

NATURE AND PROGRESS OF EUROPEAN ARMY CONCEPT

With regard to the European army, many people are hopeful that out of it and out of the Schuman plan development will come the formation of a real political union in Western Europe. There is certainly a strong ground swell of popular as well as political sentiment in favor of it, but as that has not yet occurred, I would like to confine myself to the European army, and I will say just a few more words about it.

Senator WILEY. Has that been reduced to writing, this European army conception?

Mr. BRUCE. Yes, sir. It was in draft form, and should be in final form early in April, and practically every provision has been agreed upon. The army will be subordinate to the SHAPE Command; it will be used by SHAPE just as will any other group.

The great distinction between it and a coalition army from a purely military standpoint is that you will have multinational forces at an army corps level. The divisions—I don't know whether they are going to call them divisions, but at any rate the units of a national character—will be unable to break away and to operate on their own because of their dependence on what I call this integrated corps, integrated in the sense of being multinational. It will be impossible for a nation to maintain its own forces once they have become incorporated in this European army, and that is a very significant thing, because I think a great many Americans have been deeply worried over the prospect of the revival of a German national army and a German general staff, and no device which has been thought of has ever seemed practicable, except this one of the European army, so that you did not reconstitute a German national army and also keep in existence the national armies of these countries in Europe who have been so often involved in wars in the past.

This device, if finally ratified by the parliaments, should do it. It will be interesting to see what transpires in connection with it, but that within a period of the last couple of years it has come as close to ratification as it now has is a matter really to marvel at.

I was astonished at the Schuman plan, but I am dumbfounded at how rapidly this European army idea has taken hold.

Senator GREEN. Is Britain still holding aloof?

Mr. BRUCE. Britain has declared that she will associate herself in the most intimate manner with the European army, but will not contribute contingents to it and will not become a party to the treaty which constitutes it.

Mr. BATT. Would it be appropriate for me to read a telegram at this point that I have just received?

Senator GEORGE. Surely.

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Mr. BATT (reading):

All papers feature Eden's proposal in the European Committee of Ministers to coordinate the Council of Europe with the Schuman plan and EDC. After pointing out that the amended constitution for the Council of Europe would be prejudicial to British relations with the council and make such relations very difficult, he proposed to coordinate the council with the two communities in the process of formation. The Assembly and Committee of Ministers could meet sometimes on a 6-power basis to deal with affairs of these two organizations, and sometimes on a 15-power basis to deal with the larger program defined in article 1 of the statute.

This remodeling would make the Council of Europe an integral part of the European community. It would be given valuable work to do. The duplication of European bodies would be avoided. The Schuman plan and EDC would be provided with ready-made machinery, and countries like the United Kingdom, who desire a close link with the European community, could be associated appropriately with parliamentary and ministerial institutions in the community as well as its executive orders. Press reports sympathetic.

I thought you might be interested in that.

Senator GEORGE. I think you can agree, Mr. Bruce, that Western Europe has taken a most significant forward step toward integration, if it ever goes to complete political integration, within the last 3 or 4 years, that we have seen in our time.

Mr. BRUCE. I would amplify that by saying that we have seen within modern history, at least.

Senator GREEN. Ever since the days of Napoleon, and that was military rather than political.

Mr. BRUCE. Senator, I have finished.

NATURE OF DEFENSE-SUPPORT AID

There is one thing that I would like to suggest, if I may. I had some remarks to make about the defense support, which as I said I am unfamiliar with. I have never read the act and have not discussed it with anybody, and so that the record might be quite clear, would you mind if I asked whether Mr. Wood would care to say anything that would clarify this subject?

Mr. WOOD. Mr. Chairman, it would take me just a minute. I am a little fearful, and there has been some misunderstanding, not as to the purpose, but rather as to the nature, of the defense support; that is, the commodities which might be included in defense support.

As Mr. Harriman said, when he was before the committee, the defense-support commodities which we are proposing to finance through this defense support are not in all cases solely confined to those commodities which can go, and would go, directly into the production of munitions. The theory of defense support is that it would finance those commodities and raw materials and tools which a given country requires in its economy in order that that economy may produce both for the sustaining of life in that country and for defense purposes.

So that, to be specific, it would be possible, under defense support, for us to finance the importation of cotton, let us say, into France, even though that cotton did not go into uniforms for soldiers, or into explosives.

I think the best way to understand the theory of this is to point out that defense support can consist of commodities of any essential type which, if the country did not get assistance in paying for, it would still have to import and therefore it would have to pay for itself. Under

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those circumstances, it would be forced to divert some of its defense effort into exports in order to earn the money to pay for those goods.

DIFFERENCE IN PURPOSE OF ECONOMIC AID AND DEFENSE SUPPORT

I just wanted to make that point clear. It is the purpose, and not the type of the commodities, that is important in considering this question of defense support. It will consist not only of steel or coal or copper. It might well be cotton. In the case of Great Britain, for example, it is bound to be the import of wheat that we would finance, because wheat is one of the major items which Britain must import from the dollar area if the 55 million people on that little island are to have enough food so that they can raise an army and carry on production in that country.

Thank you very much for letting me make that statement.

Senator GILLETTE. Mr. Chairman, may I comment there?

Under that definition that you have just stated, Mr. Wood, it would cover the whole field of commodities, any commodity that an importing nation needs that might divert the material to be used in munitions to the purchase of that commodity.

Mr. WOOD. It could do so; yes.

Senator GILLETTE. Then there is no limit to the purpose, as you have stated it. There is no limit to the field of commodities that can be paid for by this money that is made available.

Mr. WOOD. That is correct, sir, except for that limit which the country itself or, when we issue the procurement authorization, might place on the ground that it was nonessential. But there would be under this theory no limit, and there is no intention, as Mr. Harriman I think made clear, to pull the wool over anybody's eyes and pretend that the form which the commodities might take under defense support would in all cases be solely confined to steel and those other things that go directly into munitions production, or that their form would in all cases be any different from the form of the commodities which we financed under the Marshall plan. The essential difference is the purpose for which this is being done; it is the demonstration that if those commodities were not available and could not be paid for, and providing they are essential to that country, that country would have to divert its defense production and its defense expenditures to manufacture for export in order to pay for them, and that, therefore, if those commodities are not available and financed, it would mean a substantial reduction in the amount of defense expenditure and defense production in the country concerned.

Senator GILLETTE. Where would the determination be made as to essentiality?

Mr. WOOD. The determination would be made both by the country importing and by our organization.

Senator GILLETTE. Thank you.

Senator GEORGE. Do you have anything else to say?

Mr. BRUCE. No, sir.

Senator HICKENLOOPER. May I ask the Ambassador a question, Mr. Chairman?

Senator GEORGE. Yes.

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ATTITUDE TOWARD GERMANY

Senator HICKENLOOPER. Mr. Bruce, how deeply is the fear of an economic resurgence of Germany affecting the question of unity there? By that I mean to refer to things I heard this fall in two or three countries to the effect that if too close economic integration were achieved, if things were united into too close a package, that the industry and organizing ability of the Germans would come to the top, not necessarily in a military way but would come to the top. In 10 years Germany would, by its industry and organization, completely dominate the economy of Europe and, in effect, gain in peacetime what she could not gain in two wars. That fear is there I think, in Austria, I think in Italy, and I think in France. Whether it is dominant at all in the thinking of individuals in Great Britain, it nevertheless is present there and may be part of the reason why Britain is going to hold itself aloof from becoming entrapped in any kind of death sentence of that kind in surrendering to the German organizing skill and ability.

I wonder how much that is affecting the speed or the slowness, or whatever we might call it, of unity.

Mr. BRUCE. It is a factor which had a very considerable influence in the debates that raged both in and outside of Parliament on the Schuman plan. There is an apprehension on the part of some business interests in France that, thrown into a common pool with the Germans, superior German organizational ability——

Senator HICKENLOOPER. And work.

Mr. BRUCE. The French would question that, but the German organizational ability, particularly in connection with the products of the Ruhr, might give them an advantage if the competition were absolutely free and open in a common trade area over the French, and I would imagine that the Italians would entertain somewhat the same fear, especially their steel industry, because it is an industry which is dependent so much on the imports of its raw materials, as compared with the French, who have a certain protection in their own ore resources.

That debate was successfully disposed of, but it goes to the heart of something which is very important in Europe.

The nature of the European economies in the past has, of course been autarchic, each country trying to build up a protective wall around itself so that not only were the larger units protected by that wall against a free inflow of foreign goods on a purely competitive basis, but they kept alive during the process the producers in the industry who were noneconomic producers, and that was particularly the situation in France because of the fact that the overwhelming majority of businesses in France are very small businesses, and of those small businesses the overwhelming majority of them are family-owned, and in most cases they are family-operated.

GERMAN AND FRENCH INDUSTRIOUSNESS

Senator HICKENLOOPER. But I learned this, for instance. In November we were told that in this last calendar year, as of December 31, Germany, with all of its homes completely destroyed, had completed 350,000 housing units in West Germany, and France, which

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suffered no physical destruction comparable to Germany in any way, shape, or form, had only been able to finish 50,000 housing units.

The Germans had simply gone to work. The Germans during these last few years had in various degrees worked their 9 hours during the day, as many as there were in the family who could get a job, and would work for a pay check and contribute 2 or 3 hours a night rebuilding roads, sometimes, or rebuilding churches, rebuilding public buildings by contributing time. It is that kind of either voluntary industry or disciplined industry, I don't know which, that the Frenchman and the Italian feels is dangerous, because he likes to sit around and have his leisure, and he is not so given to contributing anything to anybody. Therefore he just fears that the industry and the organizing ability of these Germans will bring them to the top if they get themselves into a control organization of some kind where they are only one voice out of several.

Senator TOBEY. That is where the old song originated, I Can't Give You Anything But Love, Baby.

Mr. BRUCE. Senator, let me answer that, if I may, in this way. As regards housing, I don't know how many units were finished in the year 1951. The program for 1952 in France is 200,000 housing units. My own guess is that local Frenchmen are not nearly as likely to engage in reconstruction of French damaged buildings on a community basis. They are much more likely to go off and work on the nearest farm in what remains of their spare time.

A comparison of the industry of one people as against another I think is a very dangerous one to make. However, I must say that I do think if I were a Frenchman I would have very grave doubts as to whether, in entering into open competition with the Germans I would not suffer a disadvantage, especially if I were operating a marginal industry.

FRENCH ATTITUDE TOWARD SCHUMAN PLAN

On the other hand that question, as I say, has been decided. It has been decided on the political level, decided without much protest, with no widespread protest from the people. It is a popular idea; the enactment of the Schuman plan is popular. How it will work out in practice, whether it will prove to be disadvantageous to France, I think only the future can say. One cannot foretell it now. I personally believe in it enthusiastically.

But the French industrialists who are engaged in the steel business, for the coal business is nationalized in France, and who, as I say, for the most part opposed the Schuman plan, now do not seem to entertain any great fear that they are going to be competitively at a great disadvantage vis-à-vis the Germans.

When I say that, we must remember that in the period between the wars Germany industry in the Ruhr really dominated the whole of Europe, and the French as well as other nations in Europe are familiar with the skill of the Germans, with their organizing ability, with their capture of markets, and so forth, and after all they have gone into this Schuman plan, and the nations engaged in it—Luxemburg, Belgium, France—have been those who have been most subject to German competition in the heavy industries.

The Authority itself possesses certain powers so that each is protected from certain unfair practices, but to my mind one thing which many Frenchmen are enthusiastic about in connection with this free-trade, highly competitive market is that for the first time in Europe, so far as I know, in modern industrial Europe, the system of cartels, which dominated European industrial life, has been done away with. It has been done away with in the steel and coal business.

Senator HICKENLOOPER. It has not been solved in Germany, has it?

Mr. BRUCE. It is bound to be so far as the Schuman plan is concerned, the steel and coal aspects of it.

I would like so take up one further thing, if I may. If you have been told that that will have an influence on a European union, I think that that would be a mistaken deduction, because actually this urge toward military federation and political federation is an entirely different thing, although indirectly the economics of the countries will be affected by it.

I was the American observer at these European army conferences, and in connection with that this question which you have just mentioned was never brought up in the interminable meetings, in all the discussions that I heard. It has been raised in connection with the so-called green food pool, where the theory of the pooling of all agricultural products along the same line as the coal and steel in the Schuman plan was first suggested and later abandoned because of the competitive disadvantages that certain nations thought they might be in if a supernational authority took charge of the distribution and there were open competition in the case of all agricultural products. They are getting at the green pool in another way.

It is an interesting thing to follow, but I would say in closing that I don't think it is going to have an influence on this political federation or the European defense community.

EFFECT OF EUROPEAN UNIFICATION ON FREE ENTERPRISE

Senator HICKENLOOPER. One more question, if I may. Are the Schuman plan and the other programs for unification in Europe moving along now? Are they increasing or decreasing the incentives for private venture, or are they increasing government manipulation and control of industry and the economy?

Mr. BRUCE. Well, my answer to that is that theoretically, at least, they should increase private competition, and for this reason, that if you take a comparatively small area like France, and if you have to protect your industries ceaselessly against outside competition by the erection of trade barriers, by rebates on rail transport and all the other methods used by import restrictions, quantitative or qualitative or whatever it may be, quotas and so forth, you really strike, it seems to me, at the heart of free enterprise; for this reason, that you have to have such a mass of government boards supervising the protection of your private interests against competition that in the long run you simply tie your private industry up completely.

Now, the reverse of that, or not the reverse of that but the theory of it, is that in this Schuman plan high authority you will have a body of administrators who are international in character. They would see that there were no unfair competition.

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Now would that, in the case of any or all of the countries, tend to increase private enterprise? To my mind it depends on who the individuals are and how they operate. If they operate properly, I would say that private enterprise had suffered in Europe a great liberation. They will have lost just one thing. The people who controlled the large units in the Belgian, French, Luxemburg, and German steel industries will no longer be able to make their own cartel arrangements between themselves, which has almost always resulted in a reduction of output and high prices.

Our theory under private enterprise has been that as you expanded your production you increased your markets. Whether that will come to pass under the Schuman plan remains to be seen. If it does, I would think it would have been a great liberation of private industry, one from the control exercised by a few dominating figures in those particular private industries in the past, plus the greater interference which has always taken place on the part of the governments concerned.

Senator HICKENLOOPER. Is it possible that their system may be moving from a type of private cartel arrangement into a government cartel?

Mr. BRUCE. That is the question that is always raised. It is not the design of the plan. In fact, it is entirely contrary to the philosophy of the plan, and that again will depend on whether or not the organization is wisely administered. I think there is no question of that, above all.

Senator HICKENLOOPER. Will the Schuman plan and these other plans attempt to control prices of products in any way?

Mr. BRUCE. No.

Senator HICKENLOOPER. Either through the device of allocation or direct regulation?

Mr. BRUCE. No.

Senator HICKENLOOPER. I guess that is all, Mr. Chairman.

Mr. BRUCE. It has the power only in times of critical shortage.

Senator HICKENLOOPER. They have had it, then.

Mr. BRUCE. No.

Senator HICKENLOOPER. If they have the power, they will exercise it, I think, without doubt.

Mr. BRUCE. We are constantly directing materials in critical shortages with our export controls.

Senator HICKENLOOPER. That is exactly what stimulates my question, because we are stifling competition in this country, in my view, in controlling prices and controlling private enterprise through the devices of allocations or price control. I am not going to argue whether that is good or bad or indifferent at the moment, but that is what we are doing.

Sometimes I think the power which is in existence is arbitrarily and unnecessarily used, simply because it is in existence, and excuses can always be found to regulate or to allocate, but this will be on an international basis over there and will be a matter of some considerable power to determine.

Mr. BRUCE. I have not read the treaty for some time, but the Schuman plan I think I can say with perfect confidence confers on the central executive no such powers approaching in any degree the

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kind of controls that we at present exercise over portions of our economy.

HOUSING AND RENTS IN FRANCE

Senator HICKENLOOPER. Take just this rough illustration: France has never lifted rent controls since World War I, has it? They still have rent controls in France, do they not?

Mr. BRUCE. It has changed.

Senator HICKENLOOPER. There has been an emergency under the French theory that has kept rent controls on for a long, long while.

Mr. BRUCE. You know, the reason for it has been one of the most baffling things that ever happened. In spite of the changes which have been made in the last few years in giving the landlord the right to raise his rent, the average wage earner in France pays for rent, light, and heat approximately 6 percent of his wages. Here I think the figure is around 16 or 17 percent, approximately.

The result is that there is a tremendous opposition in France to the type of legislation which I believe in the long run would be the wise type, which would release money for investment in housing.

Senator HICKENLOOPER. Nobody will invest in housing at the present rate of return, will they?

Mr. BRUCE. Anybody would be very foolish who did, and that is an instance of governmental control, and that has lasted since 1920, and for a long time the rents in France were predicated on the rental value of a property in 1920, when the depreciation of the franc had been such that a franc last year, for instance, to give you an example, had a purchasing value of about one-seventh of 1 percent of what it had in 1914, and since the liberation, from 1944 to 1951, the franc had depreciated to a point where it had a purchasing value in 1951 of only 15 percent of what it had had 7 years before.

That has not been reflected in any rise in rents, and I think it is one of the reasons why the housing situation in France is as bad as it is, coupled with the fact that the destruction—I would like to refer to what you said about Germany for a minute—of housing in France, like the French losses of manpower in their Army in the Second World War, are another thing which I think has never been sufficiently explained by French publicity agencies or in hearings before the American Congress. It is a very important point.

The second is extremely important, but I won't get into that.

In the First World War, when France was constantly a battlefield, and although there wasn't the quick sweep-through that there was in the Second World War, the physical destruction was very much less than it was in the Second World War. In the Second World War it was approximately 2,000,000 homes, of which 500,000 were completely destroyed, and a million and a half were destroyed to where they required major reconstruction. That does not include any of the buildings beyond that which were damaged.

As the majority of those buildings were dwelling houses, the political clamor for reconstruction, which is a large item in the French budget, has been an overwhelming one, and I would say was probably the great priority in the drawing up and the carrying through of a budget in France.

The reparations or restitution for property, particularly dwelling property, damaged or destroyed during the war, is a major item in the budget.

Of course, the destruction is not on anything like the scale it was in Germany, but I do believe that when we talk about reconstruction, there has been this perfectly appalling standard on which rentals are based, and that has been followed consistently for political reasons.

Senator HICKENLOOPER. It is just a simple rule that if people with private capital can't get any return on its investment and loses money they are not going to invest. You can still rent an apartment if you know the ways and means of inducing the persons who go there by round-the-corner deals and so on, and you still pay through the nose for a place.

Mr. BRUCE. There is real tragedy in that, Senator.

(Discussion was continued off the record.)

Senator GEORGE. Mr. Ambassador, we have appreciated your appearance here. Your statement has been most helpful to this committee. I am sure all of the members of the committee will agree to that.

Senator GREEN. We certainly do.

Mr. BRUCE. I am sorry to have been so long, sir.

Senator GEORGE. That is quite all right. This is an important job that we have, of course, as you realize. We want to spend as much time as we can on it.